

DELTA AREA TRANSIT AUTHORITY

FINANCIAL STATEMENTS

Year Ended September 30, 2008

## TABLE OF CONTENTS

### Page

|                                       |   |
|---------------------------------------|---|
| INDEPENDENT AUDITOR'S REPORT. . . . . | 1 |
|---------------------------------------|---|

#### **FINANCIAL STATEMENTS:**

|  |   |
|--|---|
| Statement of Financial Position . . . . .                      | 3 |
| Statement of Activities, and<br>Changes in Net Assets. . . . . | 4 |
| Statement of Cash Flows . . . . .                              | 5 |
| Notes to Financial Statements . . . . .                        | 6 |

#### **SUPPLEMENTARY INFORMATION:**

|   |    |
|---|----|
| OAR Schedule 4R . . . . .                                       | 13 |
| OAR Schedule 4E . . . . .                                       | 14 |
| Schedule of Contributed Equity. . . . .                         | 16 |
| Schedule of Capital Contracts . . . . .                         | 17 |
| Schedule of Mileage Data, Vehicle Hours, and Passengers . . . . | 18 |

#### **COMPLIANCE SECTION:**

|   |    |
|---|----|
| Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit<br>of Financial Statements Performed in Accordance with<br>Government Auditing Standards . . . . . | 20 |
| Schedule of Expenditures of Awards - Federal and State. . . .   | 22 |
| Detail of Ineligible Expenses . . . . .   | 24 |



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Delta Area Transit Authority

We have audited the accompanying statement of financial position of the Delta Area Transit Authority (a nonprofit organization) as of September 30, 2008, and the related statement of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Area Transit Authority as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of the Delta Area Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

Delta Area Transit Authority

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Delta Area Transit Authority taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

November 14, 2008

## STATEMENT OF FINANCIAL POSITION

September 30, 2008

ASSETS

## CURRENT ASSETS:

|                           |            |
|---------------------------|------------|
| Cash and equivalents      | \$ 158,130 |
| Accounts receivable       | 24,035     |
| State grants receivable   | 65,371     |
| Federal grants receivable | 21,360     |
| Prepaid expenses          | 15,715     |
| Inventory                 | 12,023     |
| Other                     | 300        |

TOTAL CURRENT ASSETS 296,934

PROPERTY AND EQUIPMENT, less accumulated  
depreciation of \$1,755,854

585,958

\$ 882,892LIABILITIES AND FUND EQUITY

## CURRENT LIABILITIES:

|                                       |          |
|---------------------------------------|----------|
| Accounts payable                      | \$ 9,192 |
| Accrued payroll, taxes and fringes    | 22,128   |
| Due to federal government             | 5,533    |
| Deferred revenue - Unused T2R tickets | 4,519    |

TOTAL CURRENT LIABILITIES 41,372

## NONCURRENT LIABILITIES:

|                            |        |
|----------------------------|--------|
| Accrued fringe benefits:   |        |
| Vacation and personal time | 23,715 |

TOTAL LIABILITIES 65,087

## NET ASSETS:

|                                   |         |
|-----------------------------------|---------|
| Unrestricted contributed capital: |         |
| State & Federal                   | 576,249 |
| Unrestricted                      | 241,556 |

TOTAL NET ASSETS 817,805\$ 882,892

See accompanying notes to financial statements.

**STATEMENTS OF ACTIVITIES,  
AND CHANGES IN NET ASSETS**

For the Year Ended September 30, 2008

|                               |                           |                          |
|-------------------------------|---------------------------|--------------------------|
| Operating revenues            |                           | \$ 313,634               |
| Operating expenses            |                           | <u>(1,200,243)</u>       |
|                               | OPERATING LOSS            | (886,609)                |
| Nonoperating revenues         |                           | <u>810,500</u>           |
|                               | DECREASE IN<br>NET ASSETS | (76,109)                 |
| Net assets, beginning of year |                           | <u>893,914</u>           |
|                               | NET ASSETS, END OF YEAR   | <u><u>\$ 817,805</u></u> |

See accompanying notes to financial statements.

# STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2008

|   |                     |
|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                     |
| Cash received from operating activities   | \$ 321,742          |
| Cash payments for operating activities  | <u>(1,070,774)</u>  |
| NET CASH USED BY OPERATING ACTIVITIES   | <u>(749,032)</u>    |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:                                 |                     |
| Operating grants received   | 476,102             |
| Property tax levy received  | <u>213,966</u>      |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES                             | <u>690,068</u>      |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:                                     |                     |
| Capital grants received   | 43,322              |
| Purchases of capital assets   | <u>(52,554)</u>     |
| NET CASH USED BY CAPITAL ACTIVITIES   | <u>(9,232)</u>      |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                     |
| Interest received   | <u>7,031</u>        |
| NET DECREASE IN CASH AND EQUIVALENTS  | (61,165)            |
| CASH AND EQUIVALENTS, beginning of year   | <u>219,295</u>      |
| CASH AND EQUIVALENTS, END OF YEAR   | <u>\$ 158,130</u>   |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:        |                     |
| Operating loss  | \$ (886,609)        |
| Adjustments to reconcile operating loss to net cash used by operating activities: |                     |
| Depreciation  | 131,889             |
| Changes in assets and liabilities:  |                     |
| (Increase) decrease in receivables  | 8,108               |
| (Increase) decrease in prepaid expenses & other                                   | (7,607)             |
| Increase (decrease) in payables   | (11,279)            |
| Increase (decrease) in accrued payroll & fringes                                  | 9,393               |
| Increase (decrease) in accrued fringe benefits                                    | <u>7,073</u>        |
| NET CASH USED BY OPERATING ACTIVITIES   | <u>\$ (749,032)</u> |

See accompanying notes to financial statements.



# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Delta Area Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to nonprofit entities. The Delta Area Transit Authority was formed in September of 1989 as a nonprofit corporation to provide public transportation throughout the Delta County area. It is governed by a separately appointed board of directors and is not a component unit of Delta County. Other significant policies are as follows:

(1) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(2) Inventories - Inventory consists of replacement parts and is valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Office supplies and fuel are expensed when purchased.

(3) Accounts Receivable - The Transit follows the direct write-off method in recognizing uncollectible accounts. An allowance for bad debts has not been established because the amount is considered to be immaterial. Receivables are written off on a policy based on how recently payments have been received.

(4) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and betterment, when significant in amount, are capitalized. Assets purchased with Federal and/or State grants are capitalized regardless of amount. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives. Ranges of useful lives, by asset class, are as follows:

|                   |              |
|-------------------|--------------|
| Vehicles          | 4 - 7 years  |
| Equipment         | 3 - 10 years |
| Land Improvements | 10 years     |
| Buildings         | 20 years     |

(5) Taxable Status - The Transit has received a non-profit exemption ruling from the Internal Revenue Service under Code Section 501(c)(3).

(6) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(7) Advertising - Advertising costs are expensed as incurred. Total advertising expense for the fiscal year was \$18,414. Additionally, \$12,800 of advertising revenue and expense was recorded during the year as a result of barter transactions with local radio stations. This amount is included in the \$18,414 of advertising expense. The Delta Area Transit Authority incurs no ineligible expenses with respect to the advertising revenues. All advertising expenses were for marketing public transportation services.

(8) Property Taxes - Current property taxes are levied as of December 1 of each year and attach an enforceable lien on the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. For the 2007 calendar year the Transit levied .6 mills in the City of Gladstone, .6 mills in the City of Escanaba and .488 mills in Maple Ridge Township.

## NOTE B - CASH AND EQUIVALENTS

The composition of cash and equivalents as reported on the Balance Sheet are presented below:

|                            |                  |
|----------------------------|------------------|
| Imprest cash               | \$ 89            |
| Deposits:                  |                  |
| Checking account deposits  | <u>158,041</u>   |
| TOTAL CASH AND EQUIVALENTS | <u>\$158,130</u> |

State statutes authorize the Transit to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Banker's acceptance of United States banks.

# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE B - CASH AND EQUIVALENTS - (continued)

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - i) The purchase of securities on a when-issued or delayed delivery basis.
  - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the Urban Cooperation of Act 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the Local Government Investment Pool Act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority.

The Risk disclosures for the Transit's cash deposits are as follows:

| <u>Deposits</u> | <u>Bank<br/>Balance</u> | <u>Carrying<br/>Amount</u> |
|-----------------|-------------------------|----------------------------|
| Insured         | \$ 100,000              | \$100,000                  |
| Uninsured       | 82,864                  | 58,130                     |
| Total           | <u>\$ 182,864</u>       | <u>\$158,130</u>           |

# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE C - STATE GRANTS RECEIVABLE

The following is a summary of the state grants receivable as of September 30, 2008:

|                                       |                  |
|---------------------------------------|------------------|
| Act 51 operating assistance - FY 2005 | \$ 1,884         |
| - FY 2006                             | 1,884            |
| - FY 2008                             | 53,276           |
| Capital contract #02-0031Z17          | <u>8,327</u>     |
|                                       | <u>\$ 65,371</u> |

## NOTE D - FEDERAL GRANT RECEIVABLE

The following is a summary of the federal grants receivable as of September 30, 2008:

|                                   |           |                  |
|-----------------------------------|-----------|------------------|
| Section 5311 operating assistance | - FY 2006 | \$ 2,877         |
|                                   | - FY 2008 | <u>18,483</u>    |
|                                   |           | <u>\$ 21,360</u> |

## NOTE E - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following:

|                               | Federal<br>& State<br>Funds | Local<br>Funds  | Total              |
|-------------------------------|-----------------------------|-----------------|--------------------|
| Vehicles                      | \$1,216,539                 | \$ 2,931        | \$1,219,470        |
| Equipment                     | 201,080                     | 26,141          | 227,221            |
| Land & improvements           | 43,872                      | -               | 43,872             |
| Building                      | <u>846,929</u>              | <u>4,320</u>    | <u>851,249</u>     |
|                               | 2,308,420                   | 33,392          | 2,341,812          |
| Accumulated de-<br>preciation | <u>(1,732,171)</u>          | <u>(23,683)</u> | <u>(1,755,854)</u> |
| TOTAL                         | <u>\$ 576,249</u>           | <u>\$ 9,709</u> | <u>\$ 585,958</u>  |

Depreciation expense was \$131,889 for the year ended September 30, 2008, of which \$2,463 was on assets purchased with local funds. Depreciation expense included to be reimbursed with State Formula Funds only includes assets purchased with local funds, where the useful life of the asset has been approved by BPT.

# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE F - ACCUMULATED UNPAID VACATION, PERSONAL AND BEREAVEMENT TIME

Vacation leave is earned in varying amounts depending on the number of years of service provided by the employee, along with the average number of hours worked each week. Vacation leave accumulates on the employees hire date anniversary and is not to exceed a total accumulation of 25 days annually. Vacation time may be carried over from year to year, but is not to exceed ten days or eighty hours. Accumulated vacation time is payable for all outstanding days at the employees current rate of pay upon retirement or termination.

Personal and bereavement time accumulates at a rate of four (4) hours per month for a 40 hour employee, three (3) hours per month for a 30 hour employee and two (2) hours per month for a 20 hour employee. The maximum for personal and bereavement leave shall not exceed one hundred and forty (140). Employees will be allowed to convert 25% of their excess personal and bereavement time to their retirement account. The combined total of accrued vacation, personal and bereavement time at September 30, 2008 is \$23,715.

## NOTE G - DUE TO FEDERAL GOVERNMENT

The following is a summary of the amount due to the federal government as of September 30, 2008:

|                  |                 |
|------------------|-----------------|
| Sec. 5311 - FY02 | \$ 2,930        |
| - FY03           | <u>2,603</u>    |
|                  | <u>\$ 5,533</u> |

## NOTE H - CONTRACT FARES

The Delta Area Transit Authority has entered into a contract with the Pathways Mental Health Center for the transportation of it's clients. Under the current agreement Pathways pays the Transit \$4.55 per client trip for the fiscal year ended September 30, 2008. The total amount of revenue earned under this contract for the year ended September 30, 2008 was \$142,464.

## NOTE I - GRANT CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2008, management is unaware of any such unrecorded liability.

# NOTES TO FINANCIAL STATEMENTS

September 30, 2008

## NOTE J - COST ALLOCATION PLANS

There were no cost allocation plans in effect for the fiscal year ended September 30, 2008.

## NOTE K - NONFINANCIAL DATA

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

## NOTE L - INELIGIBLE EXPENSES

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual. Audit costs are the only costs in which eligibility differs from the State Revenue and Expense Manual and the Federal OMB Circular A-87.

## NOTE M - CAPITAL MONEY

No capital dollars were used for operating expenses during the fiscal year ended September 30, 2008.

**SUPPLEMENTARY INFORMATION**

## OAR SCHEDULE 4R

For the Year Ended September 30, 2008

## OPERATING REVENUES:

|                                 |              |
|---------------------------------|--------------|
| 40100 Demand response (farebox) | \$ 126,913   |
| 40200 Special contract fares    | 139,415      |
| 40615 Advertising sales         | 13,232       |
| 40710 Maintenance services      | 432          |
| 40620 Intercity bus income      | 32,335       |
| 40799 Miscellaneous             | <u>1,307</u> |

|                          |                |
|--------------------------|----------------|
| TOTAL OPERATING REVENUES | <u>313,634</u> |
|--------------------------|----------------|

## NONOPERATING REVENUES:

|   |              |
|---|--------------|
| 41101 State formula operating assistance (Act 51)             | 384,794      |
| 41101 Act 51 FY 07 adjustment                                 | 4,649        |
| 41301 U.S. Department of Transportation Grant<br>Section 5311 | 146,727      |
| 41301 FY 2007 Section 5311 adjustment                         | 5,496        |
| 41398 RTAP  | 4,516        |
| 41199 Capital contracts                                       | 43,322       |
| 40800 Property tax millage                                    | 213,966      |
| 41400 Interest income   | <u>7,030</u> |

|                             |                |
|-----------------------------|----------------|
| TOTAL NONOPERATING REVENUES | <u>810,500</u> |
|-----------------------------|----------------|

|                |                           |
|----------------|---------------------------|
| TOTAL REVENUES | <u><u>\$1,124,134</u></u> |
|----------------|---------------------------|

See accompanying notes to financial statements.



## OAR SCHEDULE 4E

For the Year Ended September 30, 2008

|  | <u>Opera-<br/>tions</u> | <u>Mainten-<br/>ance</u> | <u>General<br/>Adminis-<br/>tration</u> | <u>Total<br/>System</u> |
|--|-------------------------|--------------------------|---|-------------------------|
| Labor:                                 |                         |                          |   |                         |
| 50101 Operators' salaries and wages    | \$440,177               | \$ 40,685                | \$ 54,363                               | \$ 535,225              |
| 50103 Dispatchers Salaries and wages   | 22,226                  | -                        | -                                       | 22,226                  |
| 50200 Fringe benefits                  | 97,374                  | 16,250                   | 27,422                                  | 141,046                 |
| Services:                              |                         |                          |   |                         |
| 50302 Advertising fees                 | -                       | -                        | 18,414                                  | 18,414                  |
| 50305 Audit cost                       | -                       | -                        | 5,200                                   | 5,200                   |
| 50399 Other services                   | 24,785                  | 2,705                    | 14,679                                  | 42,169                  |
| Materials and supplies:                |                         |                          |   |                         |
| 50401 Fuel and lubricants              | 153,572                 | -                        | -                                       | 153,572                 |
| 50402 Tires and tubes                  | -                       | 5,712                    | -                                       | 5,712                   |
| 50499 Other materials and supplies     | 807                     | 57,612                   | 11,155                                  | 69,574                  |
| 50500 Utilities                        | 21,349                  | -                        | -                                       | 21,349                  |
| 50603 Liability insurance              | (10,564)                | -                        | -                                       | (10,564)                |
| 50699 Other insurance                  | 3,555                   | -                        | -                                       | 3,555                   |
| 50800 Purchased transportation service | 47,945                  | -                        | -                                       | 47,945                  |
| Miscellaneous:                         |                         |                          |   |                         |
| 50902 Travel and meetings              | -                       | -                        | 9,130                                   | 9,130                   |
| 50903 Dues and subscriptions           | -                       | -                        | 1,275                                   | 1,275                   |
| 50999 Other                            | 2,526                   | -                        | -                                       | 2,526                   |
| 51300 Depreciation                     | <u>124,519</u>          | <u>1,739</u>             | <u>5,631</u>                            | <u>131,889</u>          |
| TOTAL OPERATING EXPENSES               | <u>\$928,271</u>        | <u>\$124,703</u>         | <u>\$147,269</u>                        | <u>1,200,243</u>        |

See accompanying notes to financial statements.

## OAR SCHEDULE 4E (CONTINUED)

For the Year Ended September 30, 2008

|  | <u>Total<br/>System</u> |
|--|-------------------------|
| LESS INELIGIBLE EXPENSES:                            |                         |
| Maintenance services                                 | \$ 432                  |
| Depreciation   | 129,426                 |
| MPTA dues  | 65                      |
| Entertainment and gifts                              | 1,390                   |
| RTAP/MPTA reimbursements                             | <u>4,516</u>            |
| TOTAL STATE INELIGIBLE EXPENSES                      | <u>135,829</u>          |
| NET STATE ELIGIBLE EXPENSES                          | <u>\$1,064,414</u>      |
| STATE OPERATING ASSISTANCE<br>REIMBURSEMENT 36.1508% | <u>\$ 384,794</u>       |
| NET STATE ELIGIBLE EXPENSES                          | \$1,064,414             |
| Less audit cost                                      | <u>5,200</u>            |
| NET FEDERAL ELIGIBLE EXPENSES                        | <u>\$1,059,214</u>      |
| SECTION 5311 CONTRACT PERCENTAGE 16.0%               | <u>\$ 169,474</u>       |
| MAXIMUM SECTION 5311 REIMBURSEMENT                   | <u>\$ 146,727</u>       |

See accompanying notes to financial statements.

# SCHEDULE OF CONTRIBUTED EQUITY

For the Year Ended September 30, 2008

|   |                          |
|---|--------------------------|
| Balance, beginning of year                                  | <u>\$ 662,353</u>        |
| Capital contract 02-0031Z10                                 | 34,995                   |
| Capital contract 02-0031Z17                                 | <u>8,327</u>             |
|   | <u>43,322</u>            |
| Deduct:   |                          |
| Depreciation of assets purchased from<br>contributed equity | <u>(129,426)</u>         |
| BALANCE, END OF YEAR  | <u><u>\$ 576,249</u></u> |

See accompanying notes to financial statements.

# SCHEDULE OF CAPITAL CONTRACTS

For the Year Ended September 30, 2008

GRANTOR: Michigan Department of Transportation

| <u>Contract Number</u> | <u>Grant Amount</u>   | <u>Previously Earned</u> | <u>State and Federal Currently Earned</u> | <u>Local Currently Earned</u> | <u>Amount Remaining</u> |
|------------------------|-----------------------|--------------------------|---|-------------------------------|-------------------------|
| 02-0031Z10 Earmarks    | \$ 35,000             | \$ -                     | \$ 34,995                                 | \$ -                          | \$ 5                    |
| 02-0031Z11 Capital     | 85,000                | -                        | -   | -                             | 85,000                  |
| 02-0031Z14 Capital     | 8,000                 | -                        | -   | -                             | 8,000                   |
| 02-0031Z16 Capital     | 60,000                | -                        | -   | -                             | 60,000                  |
| 02-0031Z17 Earmarks    | 157,466               | -                        | 8,327                                     | -                             | 149,139                 |
| 07-0199Z5 Capital      | <u>32,344</u>         | <u>-</u>                 | <u>-</u>                                  | <u>-</u>                      | <u>32,344</u>           |
| <br>TOTAL              | <br><u>\$ 377,810</u> | <br><u>\$ -</u>          | <br><u>\$ 43,322</u>                      | <br><u>\$ -</u>               | <br><u>\$ 334,488</u>   |

See accompanying notes to financial statements.

# SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS

For the Year Ended September 30, 2008

|                  | Public<br>Transpor-<br>tation<br>Mileage | Vehicle<br>Hours | Passengers    |               |               |
|------------------|--|------------------|---------------|---------------|---------------|
|                  |  |                  | Regular       | Elderly       | Disabled      |
| DEMAND RESPONSE: |  |                  |               |               |               |
| First Quarter    | 96,850                                   | 5,880            | 9,146         | 3,228         | 13,710        |
| Second Quarter   | 93,711                                   | 5,690            | 8,706         | 3,466         | 18,508        |
| Third Quarter    | 100,876                                  | 6,264            | 8,324         | 3,444         | 15,380        |
| Fourth Quarter   | <u>108,433</u>                           | <u>7,456</u>     | <u>6,748</u>  | <u>4,087</u>  | <u>15,608</u> |
| TOTAL OPERATIONS | <u>399,870</u>                           | <u>25,290</u>    | <u>32,924</u> | <u>14,225</u> | <u>63,206</u> |

See accompanying notes to financial statements.

COMPLIANCE SECTION



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors of the Delta  
Area Transit Authority  
Escanaba, Michigan 49829

We have audited the financial statements of the Delta Area Transit Authority (a nonprofit organization), as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Transit's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following items to be significant deficiencies in internal control over financial reporting:



Board of Directors of the Delta  
Area Transit Authority

- Material audit adjustments were necessary to properly accrue revenue and expenses and to record depreciation expense for the year.
- Management was unable to produce financial statements and the required disclosures in accordance with accounting principles generally accepted in the United States of America.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe both of the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Transit in a separate letter dated November 14, 2008.

This report is intended solely for the information of the Transit Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

November 14, 2008

**SCHEDULE OF EXPENDITURES OF AWARDS - FEDERAL AND STATE**

For the Year Ended September 30, 2008

| <u>Federal Grantor/Program Title</u>                  | <u>State<br/>Contract<br/>Number</u> | <u>CFDA<br/>Number</u> | <u>Award<br/>Amount</u> |
|---|--------------------------------------|------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF TRANSPORTATION:</b>             |                                      |                        |                         |
| Passed through MDOT                                   |                                      |                        |                         |
| Operating Assistance -                                |                                      |                        |                         |
| Section 5311 - FY08                                   | 07-0199Z4                            | 20.509                 | \$146,727               |
| - FY07  | 07-0199Z2                            | 20.509                 | 5,496                   |
| Capital Assistance -                                  |                                      |                        |                         |
| Section 5309  | 02-0031Z10                           | 20.500                 | 28,000                  |
| Capital Assistance -                                  |                                      |                        |                         |
| Section 5309  | 02-0031Z17                           | 20.500                 | 125,973                 |
| <br><b>MICHIGAN DEPARTMENT OF<br/>TRANSPORTATION:</b> |                                      |                        |                         |
| Operating Assistance -                                |                                      |                        |                         |
| Act 51 - FY08   | -                                    | -                      | 331,518                 |
| - FY07  | -                                    | -                      | 4,649                   |
| <br><b>TOTAL OPERATING ASSISTANCE</b>                 |                                      |                        |                         |

| <u>Unexpended<br/>Balance<br/>09/30/07</u> | <u>Federal<br/>Revenue</u> | <u>State<br/>Revenue</u> | <u>Other<br/>Revenue</u> | <u>Expendi-<br/>tures</u> | <u>Unexpended<br/>Balance<br/>09/30/08</u> |
|--|----------------------------|--------------------------|--------------------------|---------------------------|--|
| \$ -                                       | \$ 146,727                 | \$ -                     | \$ -                     | \$ 146,727                | \$ -                                       |
| -  | 5,496                      | -                        | -                        | 5,496                     | -  |
| -  | 27,996                     | 6,999                    | -                        | 34,995                    | -  |
| -  | 6,662                      | 1,665                    | -                        | 8,327                     | -  |
| -  | -                          | 331,518                  | -                        | 331,518                   | -  |
| -  | -                          | 4,649                    | -                        | 4,649                     | -  |
| <u>\$ -</u>                                | <u>\$ 186,881</u>          | <u>\$ 344,831</u>        | <u>\$ -</u>              | <u>\$ 531,712</u>         | <u>\$ -</u>                                |

# DETAIL OF INELIGIBLE EXPENSES

For the Year Ended September 30, 2008

| <u>Ineligible Expense</u>  | <u>Ineligible Costs</u>       |                         |
|--|-------------------------------|-------------------------|
|  | <u>Section</u><br><u>5311</u> | <u>Act</u><br><u>51</u> |
| 1. <u>Maintenance Services</u> - During the fiscal year the Transit provided maintenance services for an outside agency. Eligible expenses must be reduced for the costs incurred for revenue earned on outside maintenance services provided. | \$ 432                        | \$ 432                  |
| 2. <u>Depreciation</u> - Depreciation accrued by public operators is ineligible according to UMTA C9050, 1A, Page V-4.   | 129,426                       | 129,426                 |
| 3. <u>MPTA Dues</u> - A portion of the Michigan Public Transit Association dues are ineligible. The percentage of ineligible expense for the MPTA dues for fiscal year 2008 is 6.99%.  | 65                            | 65                      |
| 4. <u>Audit Cost</u> - The cost of the annual audit is an ineligible expense per OMB Circular A-133 if the Transit expended less than \$500,000 in federal funds. The audit cost remains eligible for Act 51 reimbursement.                    | 5,200                         | -                       |
| 5. <u>Entertainment and Gifts</u> - Entertainment expenses are ineligible expenses per the Local Public Transit Revenue and Expense Manual and are subtracted out as such.   | 1,390                         | 1,390                   |
| 6. <u>RTAP/MPTA Reimbursements</u> - Expenses that were reimbursed by third-parties are ineligible for operating expense reimbursement.  | 4,516                         | 4,516                   |



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA

**REPORT TO MANAGEMENT**

Board of Directors  
Delta Area Transit Authority  
Escanaba, MI 49829

We have audited the financial statements of the Delta Area Transit Authority (the Transit) for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 6, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Transit. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Transit's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on November 6, 2008.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Transit are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2008. We noted no transactions entered into by the Transit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of fixed assets is based on the Michigan Department of Transportation Audit Guide. We evaluated the key factors and assumptions used to develop the estimate of useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements detected as a result of audit procedures and corrected by management were material and related to the proper accrual of revenues and expenses and to the recording of depreciation expense.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 14, 2008.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Transit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 14, 2008, on the financial statements of the Transit.

This information is intended solely for the use of the Board of Directors and management of the Transit and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

November 14, 2008



## **DELTA AREA TRANSIT AUTHORITY**

### **COMMENTS AND RECOMMENDATIONS**

September 30, 2008

#### **SEGREGATION OF DUTIES**

We commend the Transit for the progress that has been made during the past year on segregating duties as far as possible with the limited number of staff available. We recommend that the Transit Board continue to have close oversight on Transit financial activity. This would include the approval of Transit disbursements on a monthly basis as well as the review of a complete set of financial statements each month. This continued monitoring will help mitigate the inability to have complete segregation of duties within the management of the Transit due to the limited number of staff.

#### **BOARD MINUTES**

Some of the board minutes were unavailable for our review. We recommend that all board minutes be kept in a fashion such that they are complete and accessible. We also noted that the financial report given to the Board did not contain a balance sheet for the Transit. We recommend that a balance sheet be given to the Board on a monthly basis as well as the income and expense information.

#### **PAYROLL CHECK APPROVAL**

During our review of the board minutes we noted that the listing for payroll checks is sometimes the net payroll listing. We recommend that the list approved by the Board contain the gross payroll information as well as the net amount of the check being issued. This will give complete information to the Board for their review and approval.

#### **TICKETS TO RIDE**

Presently there is no method to track the amount of Tickets to Ride that are outstanding. The amount of tickets outstanding reflect a liability to the Transit, therefore we recommend that a system be developed to provide some reflection of the amounts of Tickets to Ride that are outstanding at, as a minimum, the fiscal year-end. If the program is to be continued the tracking of these outstanding tickets could perhaps include an expiration date on the ticket. This would allow the elimination of tickets that have passed a certain date/time frame.

#### **INVENTORY LISTING**

We noted during our audit that the parts inventory list was not completely updated. We recommend that this list be updated on a no less than annual basis.



## **DELTA AREA TRANSIT AUTHORITY**

### **COMMENTS AND RECOMMENDATIONS**

September 30, 2008

#### **FAREBOX RECEIPTS**

1. During our review of the fare box receipt system we noted that the fare box collections are counted by several people. This is a good system with respect to segregation and having multiple people counting the collections. However, we noted that this counting process is undocumented. We recommend that the counting process for each fare box deposit be documented listing the amounts of cash counted and by whom. This will serve to enhance the control system over the fare box receipts.
2. We also noted during our audit that the vans do not have the ability to have locked fare boxes in them. Presently the fares are being kept in bank bags in the van until turned in to the business office. We recommend that some consideration be given to obtaining a locked collection device that could be used in the vans that would be inaccessible to the drivers.

#### **BOARD SIGNATURE STAMP**

Presently the board member's signature stamp for check signing purposes is held by another signatory on the bank accounts. We recommend that for complete segregation of duties that the signature stamp be held by someone who is not a signatory on the checks.

#### **NONUNION PAY RATES**

We noted during our audit that one of the nonunion pay rates was not approved by the Board. We recommend that all nonunion pay rates be approved by the Board and that subsequent pay increases also be approved by the Board.